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Aviation's Role in Shaping Today's World

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Following is an address by Eugene J. McAllister, Assistant Secretary for Economic and Business Affairs, before the International Aviation Club, Washington, D.C., June 20, 1989.

I am delighted to be here with the members and guests of the International Aviation Club. I have great respect for this organization, bringing together representatives of one of the most competitive and fastest growing industries in the world.

I would like to talk to you today from the perspective of a policymaker—a policymaker from the State Department. We at the State Department feel first hand the tremendous ferment as the world shrinks and our national economies become a global economy. In the past month or two, we have witnessed incredible events in China, which commentators attribute to the communications revolution. I don't disagree about the importance of communications in drawing our world closer and making it more difficult for a nation to remain isolated—indeed, it is difficult to overestimate the significance of modern communication. But I would add another factor: that of transportation. The tremendous changes that have occurred in aviation have affected the world in which we live and affected it positively—tourism, business travel, and even the transportation of products have all played their part in shaping today's world.

I would like to spend a few minutes talking about three themes.

- What has been accomplished in aviation, and what has aviation accomplished?
- Where are we today with regard to aviation policy? What are the U.S. Government's priorities?
- What does the future of aviation policy, and the aviation business, look like? And how can we in government and you in the industry cooperate to assure that the United States remains at the leading edge?

Accomplishments in U.S. Aviation

The changes in the aviation industry over the last 10 years have been truly remarkable—remarkable in what has been accomplished, and remarkable that we take it all for granted. Stepping back, progress can be seen in a number of areas: the growth in aviation—both domestic and international, technological advancements, and rapid development of related industries. Let me offer some concrete examples.

Growth in Aviation. While aviation has continually expanded since its inception, the changes over the last decade, since deregulation began, have been astounding, particularly in international aviation.

- The number of international passengers carried by U.S. airlines doubled from 16 million to 32 million in the last decade.
- The importance of the international market has been recognized by a number of carriers that had previously served only domestic routes. New international service has been instituted by American, Delta, Continental, United, Federal Express, and other airlines. We applaud this trend and fully expect it to continue.
- U.S. carriers control 52% of the international market, up 5% in the last 2 years. This impressive growth can be attributed in part to an aggressive negotiating stance of recent years, where we have actively sought new routes and rights for additional carriers in the international market.
- International service by U.S. carriers is growing 25 times faster than domestic service.

In sum, the growth potential for international service by U.S. carriers is unlimited. But government and industry must work together to make that growth continue at this impressive rate.

Effect on the Economy. This growth in the aviation industry has had a profound impact on the U.S. economy. It has sparked rapid growth in other sectors of the economy and has even resulted in the restructuring of some sectors.

For each 1% increase in international and domestic air travel in the United States, $600 million is added to the economy, hundreds of new jobs are

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created in airlines, and tens of thousands of new jobs are created in travel-related industries and in other parts of the economy.

Technological Advancement and Development of Related Industries. Behind many of the changes in aviation has been the expanded use of computer technology. The application of computer technology coupled with the growth of international aviation has sparked remarkable changes in our lives. These technological advances have even led, in some cases, to the development of entirely new industries.

- The computer reservation system, which did not exist 15 years ago, is now a primary marketing tool for airlines. Not only are the majority of air travel reservations made and tickets issued through computer reservation systems, but train, hotel, and rental car reservations can also be arranged—a full service travel planner for the busy traveler.
- Improved cargo handling—which is faster, more efficient, and results in fewer losses—is now routine, thanks to expanded use of computer technology.
- The development of small package delivery services and door-to-door service has created thousands of jobs and revolutionized the way business is conducted. Again, computer technology has made this new service possible.
- The linkage between trucking and aviation has revolutionized the movement of freight.
- One of the most impressive areas of growth has been in tourism, which accounts for 7% of the gross national product. In 1987, foreign tourists accounted for $10 billion in income to the airlines and $42 billion to other travel-related industries. U.S. and foreign tourists spent nearly $300 billion on travel-related expenditures in the United States in 1987; 43 states and the District of Columbia earned more than $1 billion from tourism in that year.

But the greatest effect of this expansion is on the lives of people. The world has gotten smaller. People have more opportunities to travel to other countries—to get to know different nationalities and cultures. This leads to greater understanding between nations and strengthens an appreciation for that system of government which best promotes the aspirations of people—democracy.

Look at the explosive growth in the number of foreign students studying in the United States: in the school year 1977–78, there were 235,000 foreign students here. By the 1987–88 school year, that number had shot up to 356,000, a jump of 51%. With deregulation, air fares have actually declined 42% in real terms in the last 10 years, making this travel even easier and more accessible to more students. Of course, all of those students are picking up ideas and values and spreading them to their own countries.

Japanese tourism to the United States is growing an unbelievable 25% annually. In the past 10 years, tourist visas issued by American embassies and consulates around the world have nearly doubled, and exchange visitor visas have increased by 135%.

The common factor in all of these is access—aviation provides greater access to people, resources, opportunities, and leads, ultimately, to more exchanges of information and more rapid development.

What is Our Current Agenda?

This takes me to my second point—where are we today with regard to aviation policy—what are our priorities? We in the government are operating on the following four principles or priorities.

- Growth and expansion are our watchwords. Markets should be as open as possible.
- Aviation is different from the traditional international service industry. The markets are closed; market openings must be specifically negotiated, one by one, on a bilateral basis. Our negotiators will continue to ensure that we obtain economically equivalent rights abroad before granting new rights to foreign carriers.
- Aviation is becoming increasingly more complicated than routes and rights. We must look at security and liability issues and their implications for the passenger and the industry.
- Innovation is the key to the aviation industry. By minimizing restrictions and maximizing opportunities, the aviation industry will continue to thrive and expand. It is our job in government to facilitate, not impede, innovation.

More specifically, our agenda can be broken down into three categories: bilateral negotiations, security and safety, and doing-business issues, including computer reservation systems and user charges.

Bilateral Negotiations. Over the past year, the government has conducted 42 sets of negotiations with 23 countries, pushing them toward more liberal aviation regimes. I am proud to be able to report that we have had many successes.

- Our new air agreement with Mexico has expanded air service to many cities in both countries by new carriers. Combined with a dramatic change in aviation policy in favor of the economic benefits tourism can bring, passenger and cargo service has grown significantly.
- In Brazil, we reached a new agreement that provides for a significant expansion of passenger, cargo, and charter service; instituted a liberal pricing regime; and resolved conversion and remittance problems.
- We negotiated a new agreement with Austria, the first in over 10 years, that provides for new intermediate points and service by three carriers.
- We have new or expanded agreements with Australia, the Philippines, and Yugoslavia that give us new market access and provide for growth in the market.
- We are near resolution of doing-business problems with Switzerland and have solved two longstanding doing-business problems with Korea.

During the coming year, we will look closely at Japan, Canada, and Europe to seek more liberal air relationships and opportunities.

We do not believe Japan sees aviation from as broad a perspective as it should. The proposal the Japanese made, in May, does not contain enough opportunities to satisfy market demand or command the broad support of U.S. interests. We have offered to meet again in July and are preparing a new proposal that should provide the basis for mutually acceptable expansion. Key U.S. objectives are: more service to Japan by more carriers from more U.S. cities and more services to new Japanese cities, more cargo rights, and more charter rights. In the longer term, price competition is the key to creating more U.S. opportunities in Asia.

There is a greater gap between consumer demand and supply in the U.S.-Canadian market than in any other bilateral market. The growing economic and political ties between the United States and Canada make progress all the more important. The recent expansion of our aviation relationship with Mexico is strong evidence that an open relationship can be beneficial to both partners, even when their airlines differ in size. Despite Canadian concern about competition with large U.S. airlines, we believe broad liberalization will benefit both countries.

Europe is a top priority. We value highly our air relationships with Europe—the United States and the European Community are each other's largest bilateral trading partners. One-third of U.S. arrivals and departures by air are traveling to or arriving from Europe. We are pleased that services are increasing with France and Germany and hope to see agreement soon on new service to Manchester, England, and to Italy. We are urging the Scandinavian countries to focus on growth rather than restraint of a healthy market. The United States looks forward to, first and foremost, the preservation of our rights in Europe under current bilateral agreements. In addition, we seek continued growth and expansion and freer pricing, a more liberal aviation regime in Europe—one which can foster new opportunities for European and American carriers, and a continued dialogue with the community on how best to achieve the open, competitive market we want on both sides of the Atlantic within the context of a single market Europe.

Security, Safety, and Facilitation. Earlier, I spoke about the contribution that aviation makes to opening up the world. But there is also a shadow on international travel—a shadow created by the threat of terrorist actions.

Let me state up front: Air travel is still the safest mode of travel on earth. But there is the potential for terrorist-created accidents. The U.S. Government must and will put the safety of passengers first, to ensure that passengers are offered the highest quality, safest service available. We are working hard to ensure that the pursuit of safety does not unfairly burden U.S. carriers. These are issues which cut across national boundaries, and we are seeking multilateral solutions. We are working closely with the International Civil Aviation Organization to fight terrorism through the introduction of new security measures at international airports and cooperation in counter-terrorism efforts.

We also are making significant progress in our bilateral efforts and have reached agreement with 49 countries on the texts of security articles. Plans are proceeding for the deployment of new detection equipment at airports and for the assignment of additional security specialists overseas. This is not an easy task ahead. These are difficult issues that sometimes raise sensitive questions. We recognize that additional burdens are imposed on the industry, and we want to work with you to minimize those burdens. We realize that we may not always agree on these issues, but in the long run, if we all work together, we will achieve the best results.

The tragedy of the bombing of Pan Am Flight 103 has had broad policy implications in several areas. In addition to the increased focus on aviation security, it has brought to public attention the fact that the United States has not yet ratified Montreal Protocols 3 and 4 to the Warsaw convention. This is a priority of the State Department for this legislative session. We must ensure that families and victims of aviation accidents or terrorist acts will no longer have to endure additional suffering on top of the trauma of injury or death of a loved one in order to be justly compensated.

Doing-Business Issues. The third part of our immediate agenda is the resolution of the basic problems of doing business in other countries. We will continue to aggressively pursue resolution of these issues that plague carriers in many parts of the world. In some cases, these are so egregious that they minimize the value of any route rights that have been negotiated.

Market access for computer reservation systems is a key issue. We will not tolerate discriminatory displays, denial of ticketing authority for U.S. systems in foreign countries, or other restrictions that unfairly inhibit a carrier's ability to use this sophisticated tool.

Let me finally note that the Department is in the midst of arbitrating user charges imposed at Heathrow Airport. We believe these charges violate our bilateral agreement with the United Kingdom and a memorandum of understanding signed between the two governments in 1983. This is the largest aviation arbitration in history and the first arbitration with the United Kingdom in many decades. It has required a major commitment of staff and funds, but I believe it demonstrates our wholehearted commitment to your industry.

Challenges for the Future

The priorities just outlined are more than enough to keep U.S. Government negotiators busy. But there is one other critical assignment: thinking about the future.

What will it take to be as successful over the next 10–25 years as we were over the last 10 years? Where will we be at the turn of the century—or more importantly, where do we want to be at the turn of the century? There are a host of issues.

- In Europe, we will be facing an aviation industry shaped by 1992 and constrained by limited airspace. What does this mean for U.S. aviation? What will the European aviation industry look like? Perhaps there will be consolidation through mergers, even with U.S. carriers. We are seeing this trend in the manufacturing sector already and with some airlines as well. What are the implications for airline planners?
- In Asia, Japan is the gateway, yet Japan approaches aviation with a philosophy far different from our own. How do we convince the Japanese that a more expansive approach to aviation will advance Japanese interests, as well as U.S. interests, and improve Japan's economic relationship with the United States and its other economic partners?
- Are we reaching the limits of bilateral agreements and the bilateral negotiating system? In many countries, we have all the cities and routes we want. The foreign carriers in some countries want access to more of our vast market, but we have nothing to ask for in return. In other countries, we want additional carriers and service to different cities, but foreign carriers fear the competition.
- How can we address the interests of the American cities and additional U.S. carriers, who are now recognizing the value of direct international traffic and are seeking expanded routes? Should we explore the possibility of a multilateral approach to negotiating for the future?

These are difficult questions—questions of tremendous commercial magnitude—and we in the government don't claim to know the answers. But we do know two things: first, the U.S. aviation industry is highly competitive and should be extremely successful in the future, if given the opportunity—we in the government will approach these issues I have just raised from that perspective; second, that success will depend on cooperation between government and all interested parties. We need your advice and counsel. The future is in our hands. Let us make the most of it. ■

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